



## Second Quarter 2024 : Quarterly Letter

US stocks extended their bull market run this quarter (April 1-June 28<sup>th</sup> 2024) with the Russell 3000 up 3.2%. The rally is still somewhat narrow with the Magnificent 7 leading the charge. Inflation's progress toward the Fed's 2% target has stalled with headline CPI inflation hovering between 3.0-3.5%. Bonds, as measured by the Bloomberg Aggregate, were flat on the quarter as the price impact of slightly higher yields offset coupon income.

Will the good times continue to roll for the remainder of the year? Hopefully, but hope is not a strategy and investors' discipline will be tested. The field of behavioral finance has shown that letting our emotions govern investment behavior often leads to irrational decisions that can cost us dearly. No one is immune and this is why we need a disciplined framework to guide our decisions.

Narrative-driven investing tends to drive most investors into either the fear camp or greed camp. Today, investors who are focusing on the Biden-Trump election narrative are migrating to the fear camp while those enamored with the promise of artificial intelligence see a big pot of gold at the end of the rainbow.

In this polarized political climate, most Americans agree we deserve better than the current presidential candidates. The current presidential campaign season magnifies our dysfunctional political scene. The lack of a strong middle precludes the ability to tackle major reforms ranging from climate change and immigration to our burgeoning deficits. Equally bad, threats to the rule of law may undermine the competitive advantage afforded to American corporations relative to other foreign-based companies. Given these problems, it is not irrational to be cautious.

However, here are two facts for those investors rushing into an uber-conservative portfolio. First, it's time in the market that matters, not timing the market. \$1,000 invested in the S&P500 from 1953 to present would have generated \$1.6 million before taxes. Investing in the S&P500 during Republican presidencies and cash during Democrat presidencies would have generated just \$31,000, while the reverse would have generated \$50,000. Second, US stocks have tended to lose money less frequently during Presidential Election years than in non-Presidential years. In only 4 years out of the 24 (17%) since 1926 did the S&P500 post negative returns during a Presidential election year<sup>1</sup>. These losses were driven by economic historical events rather than political events. Bear in mind, as investors, we are investing in companies and not political parties. The presidency is just one factor that impacts the markets. Other factors range from interest rates, technology, geopolitics, natural disasters and oil prices.

The single most common feeling many have as an investor is that we missed out on something that's on a rocket ride to the moon. As a long-term investor, who mostly invests using diversified portfolios, I think that makes us particularly susceptible to FOMO—the fear of missing out. Right now, the stock that everyone is talking about is Nvidia, which briefly became the world's largest company by market capitalization earlier this month before pulling back.

Rob Arnott of Research Affiliates notes that artificial intelligence is a real revolution but cautions that market pricing

<sup>1</sup> <https://www.ishares.com/us/insights/investing-in-an-election-year>

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may have gotten ahead of its plausible reality. NVIDIA currently has a profit margin of 50%. Do we think that AMD, Intel, and Taiwan Semiconductor will sit on their hands or will they compete and squeeze profit margins away from NVIDIA? Likewise, Qualcomm was the poster child for the dot-com era. It leaped ahead of competitors back then, building an incredible business providing the plumbing for the Internet. In 1999, it was up over 27-fold making Nvidia look like a value stock by comparison! Since then, it has remained a dominant player in the internet's plumbing. How's it done as a stock? You would have been twice as wealthy today investing in the S&P 500 as investing in Qualcomm back at the start of 2000. AI may be a real revolution and NVIDIA has built an extraordinary business, however, does it merit a significant overweight in your portfolio given valuations?

Please reach out to me to discuss any concerns regarding your portfolio and long-term plan in light of this challenging market environment.

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